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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REPORT, 2022	Docket No. ACR2022

COMMENTS OF THE
NATIONAL POSTAL POLICY COUNCIL
(January 31, 2023)

The National Postal Policy Council ("NPPC") respectfully submits these comments on the Postal Service's Annual Compliance Report for Fiscal Year 2022 ("*FY2022 ACR*"), filed December 29, 2022.

In these comments, NPPC will address:

- The understatement of costs due to the omission of retiree health benefit ("RHB") normal costs, which affects many costing and profitability figures and complicates comparisons to costs in all previous years;
- The misleading workshare discount passthroughs, also caused by the omission of about 6-7 percent of the costs avoided by workshared First-Class Letters, and the need for the Commission not to make findings based on incomplete data;
- The continued need to improve current Commission rule 3030.284, which by allowing the Postal Service to set the minimum workshare discount passthrough at 85 percent of avoided costs ensures that far too many discounts will, in fact, long be set at inefficient levels;
- The service performance for First-Class Mail, although facially improved, is not fully comparable to prior years due to the changes discussed in Docket No. N2021-1, which were in effect for the entire year, and remains well below service standards; and
- The desirability of the Postal Service converting successful volume-related promotions into permanent offerings.

I. THE *FY 2022 ACR* IS NOT COMPARABLE TO PREVIOUS ACRs BECAUSE OF THE OMISSION OF RETIREE HEALTH BENEFIT NORMAL COSTS

Until this case, every annual compliance review has included RHB normal costs among the Postal Service's total and attributable costs. Every past Commission annual compliance determination has relied on those costs, including as the basis for findings regarding cost coverages, workshare discount compliances, and cost reduction initiatives.

The Postal Service's Form 10-K for FY 2022 reported $4.4 billion in RHB normal cost liability.[1] Notwithstanding its 10-K, in the *FY2022 ACR* the Postal Service reports those costs as zero. It did so in reliance on Order No. 6363,[2] which said that the Postal Service's proposal to exclude RHB normal costs from the *FY 2022 ACR* (due to a provision in the Postal Service Reform Act of 2022 that addressed funding) was consistent with current analytical principles. To the extent that the Postal Service's *FY2022 ACR* reports lower labor costs due to the exclusion of RHB normal costs – which means that the *FY2022 ACR* ignores an RHB normal cost liability of approximately $4.4 billion – that reduction is due to an accounting change.

In Docket No. RM2023-3, mailers have proposed, and the Commission has issued a notice of proposed rulemaking, to restore the inclusion and attribution of such

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[1] *See United States Postal Service Form 10-K for Fiscal Year 20*22 (at 32) (reporting Office of Personnel Management calculation of RHB normal cost liability).

[2] The Commission denied a motion for reconsideration of its ruling regarding the current methodology in Order No. 6430, Docket Nos. RM2023-1 and RM2023-3 (January 25, 2023). In this same order, it issued a notice of proposed rulemaking in Docket No. RM2023-3 to address how RHB normal costs should be handled in this proceeding and in the future.

costs. While the merits of Docket No. R2023-3 need not be reargued here, the important point in this proceeding is that every labor cost in the *FY 2022 ACR* as filed in December excludes RHB normal costs, which have been included in every prior annual compliance report and annual compliance determination.[3] Consequently, all FY 2022 cost data for which labor costs are an input are understated in comparison to any other fiscal year since FY 2008.

Retiree benefits comprise part of the economic costs of postal operations. Typically, approximately 58 percent of total RHB normal costs are deemed attributable and comprise more than 5 percent of attributable costs.[4] If these costs were attributed at the same general rate as in previous years, approximately $2.6 billion more costs would be attributed across products than the *FY2022 ACR* reports. NPPC estimates that any cost figure – including unit costs and costs avoided by worksharing -- that is based on attributable labor costs is understated, perhaps by as much as 7 percent. Accordingly, if the Commission wishes to compare FY 2022 costs with those in any previous year, it should adjust for the exclusion of RHB normal costs.

It also follows that the Commission should regard with substantial skepticism any Postal Service claims of cost reductions. To the extent that reported costs are lower than in past year because of the exclusion of RHB normal costs, such reduced

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3 NPPC joined other mailers in moving for a Chairman's Information Request to obtain RHB normal cost data necessary for a better understanding of the costing issues at stake in this review. *See Motion for Issuance of Chairman's Information Request*, Docket No. ACR2022 (January 18, 2023).

4 *E.g.*, in FY 2021 total RHB normal costs were $4.203 billion, of which $2.455 billion (or 58.4 percent) were attributable. Docket No. ACR2021, USPS-FY21-43, IC2021Public.NewAttribCRpt.xlsx, "CS18", cells AC57 and AC59.

cost is caused neither by operational decisions nor by improved efficiency. The Commission must distinguish any cost reductions stemming from excluding RHB normal costs (an action unrelated to actual postal operations) from actual cost reductions resulting from improved Postal Service efficiency.

For example, the *FY2022 ACR* (at 9, Table 1) reports that the unit cost of First-Class Presorted Letters/Cards was $0.140 in FY 2022. The corresponding figure last year was $0.142.[5] If RHB normal costs were included, NPPC estimates that the unit cost would be approximately $0.15. That would be an increase in unit costs increased, not a reduction.

On the other hand, where the Postal Service reports increased unit costs even despite the exclusion of RHB normal costs, the Commission should explore such increases much more deeply. For example, the *FY2022 ACR* (at 9, Table 1) reports an FY 2022 unit cost for First-Class Single-Piece Letters/Cards of $0.373 while the corresponding unit cost from FY 2021 was $0.368.[6] Similarly, the unit cost of First-Class Flats reported in the *FY2022 ACR* is $1.340 (*id*.), which compares unfavorably to the FY 2021 figure of $1.326.[7] In the more detailed library reference, the Postal Service blames the Single-Piece cost increase on higher purchased transportation

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5 *United States Postal Service FY 2021 Annual Compliance Report*, Docket No. ACR2021, (December 29, 2021), at 7, Table 1.

6 *Id.*

7 *Id.*

costs, which increased by more than the overall unit cost.[8] In the case of First-Class Flats, the Postal Service attributes the $0.014 increase in unit costs to a $0.012 cent increase in delivery costs and a $0.011 increase in purchased transportation, offset by a reported decline in unit mail processing costs of $0.008. *Id*. Although purchased transportation costs are not labor-related and thus are unaffected by the RHB normal cost exclusion, mail processing and delivery costs are very labor intensive, and the lower reported unit costs may simply reflect the absence of the usual RHB normal cost piggyback factor.

For these reasons, the Commission should scrutinize any cost changes in labor-intensive activities. Reported cost reductions may be overstated compared to past years, while reported cost increases may be understated for the same reason. The Commission should determine whether the Postal Service truly reduced labor costs by effective operational changes, or whether reported decreases were due to the interpretation of the Postal Service Reform Act's funding provisions.

II. THE COMMISSION SHOULD NOT BASE WORKSHARING DISCOUNT COMPLIANCE DETERMINATIONS ON DATA DISTORTED BY THE OMISSION OF RHB NORMAL COSTS

In Docket No. R2023-1, the Postal Service set workshare discounts using avoided costs calculated in the FY 2021 Annual Compliance Determination. Those costs, as noted above, included $2.5 billion in attributable RHB normal costs. Omitting

[8] *See* USPS-FY22-45, *Rule 3050.50 Flats, Paragraph (b), Financial Report, Part B Narratives-FY 22 Rule 3050.50* at 2.

the FY 2022 costs now results in smaller calculations of avoided costs, which has the effect of increasing the apparent passthroughs of discounts set only three months ago in Docket No. R2023-1. In First-Class Presort Mail, the avoided costs primarily are in mail processing and delivery operations, for which labor accounts for the great majority of the costs.

It is probable that the larger passthroughs reported in the *FY 2022 ACR* are primarily the consequence not of operational ebbs and flows, but of the change in accounting for RHB normal costs. Had the RHB normal costs included, as in all previous ACRs, costs avoided by worksharing would be as much as 7 percent larger than reported in the current *FY 2022 ACR*.

That means the *FY2022 ACR* calculates workshare discount passthroughs by using avoided costs that differ materially in substance from the avoided costs upon which they were set. The discounts were set properly using FY2021 costs that, unlike the reported FY2022 costs, included the full economic cost of providing service. The Commission should not make findings of noncompliance of discounts that exceed 100 percent due to omitting RHB normal costs, nor should it make unwarranted findings of compliance regarding discounts within 5 to 7 percentage points of the 85 percent minimum in Rule 3030.284(e).

Consider the implications of the omission of RHB normal costs on the workshare discounts for First-Class Automation. Here are the passthroughs reported in the *FY2022 ACR*:

Table 1—First-Class Mail Presort Automation Letters Avoided Costs, Discounts, and Passthroughs

Presort Level	FY 2022 ACR Cost Avoidance (Excludes Normal Cost)		Jan 2023 Discount	Passthrough
	Unrounded	Rounded		
Mixed AADC	$0.06911	$0.069	$0.069	100.0%
AADC	$0.02449	$0.024	$0.024	100.0%
5-Digit	$0.04209	$0.042	$0.036	85.7%

Source: USPS-FY22-3, FY22.3 WorksharingTables.xlsx, "FCM Bulk Letters, Cards"; Docket No. R2023-1, PRC-LR-R2023-1/1, PRC_CAPCALC-FCM-R2023-1.xlsx, "FCM Worksharing"

Compare Table 1 with what the passthroughs would be with RHB normal costs included, in Table 2:

Table 2—Estimated First-Class Mail Presort Automation Letters Avoided Costs, Discounts, and Passthroughs (including RHB Normal Costs)

Presort Level	Approximate Cost Avoidance (Excludes Normal Cost)		Jan 2023 Discount	Passthrough	
	@~6% Increase	@~7% Increase		@~6% Increase	@~7% Increase
Mixed AADC	$0.073	$0.074	$0.069	94.5%	93.2%
AADC	$0.026	$0.026	$0.024	92.3%	92.3%
5-Digit	$0.045	$0.045	$0.036	80.0%	80.0%

The difference is evident. In the *FY2022 ACR* as filed, the Mixed AADC and AADC discounts pass through the full estimate of costs avoided and the 5-Digit discount barely exceeds the 85 percent "safe harbor" threshold set by rule 3030.284(e). In contrast, including RHB normal costs drops the 5-Digit Letter discount passthrough to 80 percent, where it is noncompliant and corrective action would be required.

A similar problem occurs in First-Class Single-Piece QBRM Letters and Cards. The *FY2022 ACR* reports a passthrough of 104.8 percent,[9] compared to 100 percent set in Docket No. R2023-1,[10] although that passthrough reasonably could be expected to be at or below 100 percent were RHB normal costs included.

Consider also First-Class Flats workshare discounts, shown in Table 3:

Table 3—FY 2022 First-Class Mail Flats Avoided Costs, Discounts, and Passthroughs

Presort Level	Discount	Avoided Cost	Passthrough
ADC	$0.113	$0.136	83.1%
3-Digit	$0.059	$0.061	96.7%
5-Digit	$0.207	$0.206	100.5%

Source: USPS-FY22-3, FY22.3 WorksharingTables.xlsx, “FCM Flats”

Again, including RHB normal costs would increase the avoided costs and decrease the passthroughs. As filed, the Flats Automation 5-Digit discount exceeds 100 percent, although the passthrough surely would be in the mid-90’s if all economic costs were included. At the other end of the spectrum, the Flats Automation ADC discount is below the 85 percent threshold even as filed, and the more accurate passthrough is certainly lower still.

The same issue affects other classes as well. For example, the *FY2022 ACR* reports a passthrough for USPS Marketing Mail Automation AADC Letters of 105

9 USPS-FY22-3, FY22.3 WorksharingTables.xlsx, “FCM Single Piece Letters,Cards”, cell H10.

10 Docket No. R2023-1, PRC-LR-R2023-1/1, PRC_CAPCALC-FCM-R2023-1.xlsx, “FCM Worksharing”, cell H6.

percent,[11] compared to 100 percent set in Docket No. R2023-1.[12] Furthermore, the Postal Service reports that six Marketing Mail Parcel categories whose passthroughs were set at 100 percent in both Docket No. R2022-1 and R2023-1 now exceed that threshold. It states: "[t]he sole reason for these passthroughs to be out of compliance in the instant docket is the change in cost avoidance between ACR2021 and ACR2022." *FY2022 ACR* at 26.

The inflated passthroughs due to understated avoided costs also frustrate pricing efficiency at the low end of passthroughs. Some workshare discounts set at below 85 percent passthroughs in Docket No. R2023-1 are reported to have larger passthroughs in the *FY 2022 ACR* simply because the omission of attributable RHB normal costs has reduced the costs avoided. Such erroneously understated costs avoided could lead the Commission to find, inaccurately, that discounts set at uneconomic levels comply with the minimum threshold.

NPPC recognizes that cost avoidances fluctuate from year to year for various reasons. But those fluctuations are due to operational matters or, occasionally, modest changes in costing methodologies that have been carefully reviewed in a proceeding pursuant to Rule 3050.11. Cost avoidances should not fluctuate due to accounting changes that ignore billions of dollars in liabilities that are being incurred

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[11] USPS-FY22-3, FY22.3 WorksharingTables.xlsx, "Marketing Mail Letters", cell H8.

[12] Docket No. R2023-1, PRC-LR-R2023-1/2, PRC-CAPCALC-USPSMM-R2023-1.xlsx, "USPS MM Letters", cell I7.

due to labor contracts and thus constitute part of the economic cost of providing postal services.

Whether ignoring those costs causes a passthrough unnecessarily to exceed 100 percent or makes it incorrectly appear to exceed 85 percent, both errors frustrate rather than further the Commission's stated goals of transparency and pricing workshare discounts at economically efficient levels. Given the incompleteness of the costs avoided presented in the *FY2022 ACR* and their lack of comparability to those in prior years, the Commission should not find the workshare discounts reported in the *FY2022 ACR* to be compliant or non-compliant without considering whether a different finding would be warranted if the RHB normal costs were included.

The proper solution would be for the Commission to grant the relief sought by mailers in Docket No. RM2023-3, require the inclusion of RHB normal costs, and apply them in this proceeding. After the Postal Service refiles correct data, it will be possible to review the workshare discount passthroughs against all economic costs.

Even if the Commission were to adhere to the approach described in Order No. 6363, however, draconian application of the workshare discount rules to discounts set in good faith just three months ago solely because acknowledged economic costs were not invoiced would frustrate the goals of economic efficiency that the Commission has long sought to advance.

Therefore, the Commission should adjust for the artificial reduction in avoided costs by deeming any workshare discount passthrough of up to 100 percent + 7 percent to be compliant with Rule 3030.283 and not require the Postal Service to reduce them in its next rate adjustment. The Commission could easily achieve this by granting the Postal Service a blanket waiver pursuant to Rule 3030.286 for workshare discounts having a passthrough up to 107 percent and apply that waiver to all rate adjustments in FY 2023.

NPPC also urges the Commission to find workshare discount passthroughs presented in the *FY2022 ACR* as between 85 and 92 percent to be inflated due to the omission of the RHB normal costs. Accordingly, the Commission should waive Rule 3030.284(e) as applied to discount passthroughs between 85 and 92 percent because those are within the range of inaccuracy.

III. NOTHING IN THE *FY2022 ACR* SUGGESTS THAT THE POSTAL SERVICE HAS STEMMED THE DECLINE IN FIRST-CLASS MAIL

Total First-Class volume fell by 3.6 percent. *FY2023 ACR* at 10. While this decline was marginally smaller than in previous years, the Postal Service does not contend that it shows a reversal in the general trend.

The volume of Presorted Letters/Cards fell by more than 600 million pieces year over year, and that of Flats fell by nearly 80 million pieces.[13] Single-Piece volume fell by more than 1 billion pieces.[14]

The Postal Service notes that the volume of 5-Digit Automation Letters – by far the largest and most important product in the class – declined by 3.3 percent. *FY2022*

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13 USPS-FY22-42 – *FY 2022 Revenue, Pieces, and Weight Report* (Public Version) (December 29, 2022).

14 *Id.*

ACR at 10. Yet because the volume of the other Automation Letter categories declined even more, 5-Digit Letters now comprise an even larger proportion of the Automation mailstream. This shift likely reflects an effort by mailers to obtain a lower price, possibly through co-mailings.[15]

Total First-Class revenue increased by $777 million.[16] This occurred solely due to rate increases, as the Postal Service again failed to encourage volume growth or even retention. It appears that the Postal Service is content to raise rates and reduce volume, a classic tactic of a monopoly and one which its regulator should prevent.

It is difficult to evaluate what occurred with attributable costs on a total or unit basis. Due to the omission of RHB normal costs, the cost coverages reported in the *FY 2022 ACR* are *sui generis* and not comparable to cost coverages in prior years. However, it remains abundantly clear that Presort Mail continues to be the most efficiently prepared and low-cost mail in the system. The Postal Service should do more to encourage it to remain in the mailstream, not to drive it out through price increases or cuts in service standards.

IV. FIRST-CLASS MAIL SERVICE QUALITY REMAINS UNACCEPTABLE

The *FY2022 ACR* (at 50-54) touts "enormously" improved service performance for First-Class Letters and Flats in FY2022. NPPC acknowledges the hard work by

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15 The decline in volume of Presort/Automation Letters was partly offset by an increase in the volume of Presort Cards. That increase can best be explained by mailers shifting to lower priced products, finding that the cost savings in paper and postage offset the reduced privacy of cards.

16 USPS-FY22-42 – *FY 2022 Revenue, Pieces, and Weight Report (Public Version)* (December 29, 2022).

postal employees to improve performance and, of course, encourages continued and persistent improvements in service. And indeed, the *FY2022 ACR* reports that the Postal Service exceeded many of its targets for First-Class Mail, including all targets for Presort First-Class Letters and Cards.[17] Compared to the woeful service in past years, this does represent significant and welcome improvement.

Nonetheless, the Commission should take several considerations into account to evaluate performance in perspective. First, the Postal Service is comparing service either against its dreadful performance in FY 2021 (*FY2022 ACR* at 51-54) or against its self-announced internal "targets" (*FY2022 ACR* at 51). Nowhere does the Postal Service appear to even mention its service standards – which is the service quality that it advertises as "the level of service that the USPS® strives to provide to customers." *Service Standards*, www.postalpro.usps.com/operations/service-standards (visited January 17, 2023).[18] Setting lower targets, while less demanding and therefore more achievable, simply lowers the hurdle and shifts the focus away from the actual service standards. The Postal Service should strive to meet the published service standards, not a lesser internal operational target.

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[17] The Postal Service's *Fiscal Year 2022 Annual Report to Congress* (USPS-FY22-17, at 34) combines Letters/Cards with Flats, and that composite met all three (overnight, 2-day, and 3-to-5 day targets, although the shape breakout in the ACR tells that Flats performance fell significantly short of target. USPS-FY22-29, *Annual Report on Service Performance for Market Dominant Products* at 3.

[18] Service standards are the advertised expected days for delivery. "Targets" are internal Postal Service goals for processing and delivery. *See* Docket No. N2021-1, USPS-T-1 at 11, n.8 (Cintron) & MH/USPS-T-6 (Cintron).

No service provider is perfect. NPPC is aware that the Commission has allowed, and the Court of Appeals has affirmed, the Postal Service to set targets below 100 percent as benchmarks for determining compliance. *See American Postal Workers Union, AFL-CIO v. Postal Regulatory Commission*, 842 F.2d 711 (D.C. Cir. 2016). Yet as a service provider, the Postal Service should strive to achieve 100 percent performance. It will not succeed; no service provider does, but it should aim high. The Postal Service has demonstrated no reluctance to imposing on First-Class mailers the highest rate increases possible under current regulations. But if mailers are to be charged maximum prices, they deserve maximum service – not service that by design fails to achieve the advertised standards.

Second, the service standards for 39 percent of First-Class Mail and 10 percent of Periodicals mail were reduced in FY2022 compared to FY2021 due to the changes described in Docket No. N2021-1.[19] The reductions, which were implemented on the first day of FY2022, affected mail in the 3- to 5-day delivery areas. The *FY2022 ACR* does not, of course, compare the FY 2022 service performance to the now-superseded standards. And it is unsurprising that the Postal Service scored better against the slower standards.[20] Both the *FY 2022 ACR* and the *Annual Report to Congress* show that 3-to-5 day performance exceeded the target. But the reduced

19 *See Advisory Opinion on Service Changes Associated With First-Class Mail and Periodicals*, Docket No. N2021-1 (July 20, 2021).

20 *See id.* at 99 ("Expanding the service standard window should make it easier to meet service performance targets").

standard masks whether actual service truly improved at all, or by how much, because the FY2022 standard was set notably lower than the FY2021 standard.

First-Class mailers still have not received the benefit promised in Docket No. N2021-1. In testimony in that proceeding, Postal Service witness Cintron stated that the Postal Service expected to set service performance targets at 95 percent once the new service standards were in place.[21] The new standards have now been in place for nearly 16 months, yet the Postal Service's announced targets for FY2023 still fall short of even that target for every Market Dominant product except Presort Overnight Letters, Presort Two-Day Letters, and Overnight Flats. *See Letter from Mikhail Raykher to Erica Barker* (November 29, 2022).

Third, the service performance for First-Class Flats continues to be dismal. Only 82 percent of Overnight First-Class Flats and 80.1 percent of Two-Day Flats met the Postal Service's internal target. *See USPS-FY22-29 Annual Report on Service Performance for Market Dominant Products*, at 3. Three-to-five day Flats, which were most affected by the changes in Docket No. N2021-1, experienced the poorest service, with only 78.6 percent meeting even the target. *Id*.

The service provided to First-Class Flats is especially intolerable because after the FY2021 ACD found Flats to be underwater, the Postal Service raised rates by 9.204 percent in Docket No. R2022-1 (effective July 2022), and by another 6.214 percent in Docket No. R2023-1 (effective January 22, 2023). While only the first of

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[21] Docket No. N2021-1, USPS-T-1 at 11, n.8.

those increases took effect in FY2022, the volume of First-Class Flats fell by nearly 7 percent compared to FY2021.[22] Further substantial losses in First-Class Flats volume are likely in FY2023, as mailers absorb both large increases with yet another likely still to come in July.

Finally, as NPPC has urged in previous years, the Commission should require the Postal Service to report separately its performance for remittance mail. The importance of remittance mail service has previously been discussed to a considerable degree. *E.g., See Advisory Opinion on Service Changes Associated With First-Class Mail and Periodicals, Separate Views of Chairman Michael Kubayanda*, Docket No. N2021-1, at 2-7. Although the Commission's current regulations do not require that the Postal Service report separately on remittance mail service, doing so would be quite helpful to business mailers.

The Postal Service stated in Docket No. PI2022-3 that it can now measure Reply Mail service performance separately within Single-Piece First-Class Letters/Cards/Flats.[23] NPPC welcomes that improvement and, in Docket No. RM2022-7, urged the Commission to require the Postal Service to update its service performance plan to report Reply Mail separately as a step towards reporting remittance mail.[24] In its notice of proposed rulemaking in Docket No. RM2022-7, the

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[22] USPS-FY22-42 – FY 2022 Revenue, Pieces, and Weight Report (Public Version) (December 29, 2022).

[23] *United States Postal Service Notice of Filing Changes To Service Performance Measurement Plan Document,* Docket No. PI2022-3, at 1 (April 22, 2022).

[24] *Comments of the National Postal Policy Council*, Docket No. RM2022-7, at 4 (June 3, 2022).

Commission supported the measurement of Reply Mail on the future service performance dashboard.[25] NPPC encourages the Postal Service to build on this and develop the ability to track remittances separately.

V. PROMOTIONS

NPPC members make substantial use of the Postal Service's promotions, usually but not exclusively in First-Class Mail. NPPC commends the Postal Service for offering promotions as incentives to mailers to seek new opportunities to use mail effectively to retain or increase volume. At the same time, the Postal Service could do more to make the promotions more user-friendly and therefore more successful. A simple way to do so is for the Postal Service to provide more timely advance information, to allow mailers to gear up for the promotion. Another way to do so, which the Postal Service did with the Emerging and Advanced Technology promotion in Docket No. R2023-1, is to lengthen the duration of the promotion so that mailers have a longer opportunity to recoup their investments.

NPPC members regret the elimination of the Earned Value Reply Mail Promotion in that same docket. Although that decision is solely the Postal Service's, NPPC members find it disappointing.

Going forward, the Postal Service should shift its focus from offering temporary incentives to spur volume to planning to make selected promotions permanent. The Service currently offers an array of presortation and dropship discounts that

25 Order No. 6275, Docket No. RM2022-7, at 22 (September 21, 2022).

encourage mailers to look for ways to reduce postal costs. In contrast, the Postal Service currently does not offer volume incentive discounts that would encourage mailers simply to mail more pieces. To the extent it uses promotions to do so, they are merely temporary.

This different treatment of cost and volume initiatives leaves potentially significant opportunities off the table. If the Postal Service wants to retain or increase volume of Market Dominant products, instead of merely watching as those volumes erode, it should do more to offer incentives for mailers to stay in, or expand their use of, the mail.

An immediate step could be to convert some promotions into permanent year-round incentives. Doing so would give the Postal Service additional tools to attract volume, and mailers additional reasons to use the post. For example, for many promotions, mailers wanting to participate must incur not immaterial setup costs. If a particular promotional incentive is permanent, the financial case for mailers to participate becomes easier to make.

VI. CONCLUSION

The National Postal Policy Council urges the Commission to consider these comments as it evaluates the Postal Service's *Annual Compliance Report*, and to initiate a rulemaking to improve Rule 3030.284 as described herein.

Respectfully submitted,

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